Minutes of the Financial Stability Oversight Council

July 14, 2020

PRESENT:

Steven T. Mnuchin, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System (Federal Reserve)
Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC)
Jay Clayton, Chairman, Securities and Exchange Commission (SEC)
Heath P. Tarbert, Chairman, Commodity Futures Trading Commission (CFTC)
Kathleen Kraninger, Director, Consumer Financial Protection Bureau (CFPB)
Mark Calabria, Director, Federal Housing Finance Agency (FHFA)
Brian Brooks, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Rodney Hood, Chairman, National Credit Union Administration (NCUA)
Thomas E. Workman, Independent Member with Insurance Expertise
Dino Falaschetti, Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member)
Eric Cioppa, Superintendent, Maine Bureau of Insurance (non-voting member)
Melanie Lubin, Securities Commissioner, Maryland Office of the Attorney General, Securities Division (non-voting member)

GUESTS:

Department of the Treasury (Treasury)
Kipp Kranbuhl, Principal Deputy Assistant Secretary for Financial Markets
Howard Adler, Deputy Assistant Secretary for the Council
Eric Froman, Assistant General Counsel (Banking and Finance)
Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council

Board of Governors of the Federal Reserve System
Randal Quarles, Vice Chairman for Supervision
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation
Travis Hill, Deputy to the Chairman for Policy
Securities and Exchange Commission
Jeffrey Dinwoodie, Chief Counsel/Senior Policy Advisor for Market and Activities-Based Risk

Commodity Futures Trading Commission
Jaime Klima, Chief of Staff and Chief Operating Officer

Consumer Financial Protection Bureau
Thomas Pahl, Policy Associate Director

Federal Housing Finance Agency
Sandra Thompson, Deputy Director, Division of Housing Mission and Goals
John Roscoe, Chief of Staff, Office of the Director

Comptroller of the Currency
Blake Paulson, Senior Deputy Comptroller of the Currency and Chief Operating Officer

National Credit Union Administration
Andrew Leventis, Chief Economist

Office of the Independent Member with Insurance Expertise
Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York
John Williams, President and Chief Executive Officer
Sandra Lee, Senior Vice President

Office of Financial Research
Alexander Pollock, Principal Deputy Director for Research and Analysis

Federal Insurance Office
Bruce Saul, Senior Insurance Regulatory Policy Analyst

Texas Department of Banking
James Cooper, Senior Vice President, Policy, Conference of State Bank Supervisors (CSBS)

Maine Bureau of Insurance
Mark Sagat, Assistant Director, Financial Policy and Legislation, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division
Vincente Martinez, General Counsel, North American Securities Administrators Association
Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 12:34 P.M. The Council convened by conference call.

The Chairperson began by outlining the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session of the meeting included (1) the Federal Reserve’s stress tests, (2) secondary mortgage market activities, (3) Coronavirus Disease 2019 (COVID-19), and (4) a vote on the minutes of the Council’s meeting on May 14, 2020.

1. Federal Reserve Stress Tests

The Chairperson introduced the first agenda item, the Federal Reserve’s stress tests, and turned to Randal Quarles, Vice Chairman for Supervision at the Federal Reserve.

Mr. Quarles reviewed the process and results of the Federal Reserve’s stress tests, which were announced in June 2020. He noted that the stress test process has evolved continually over the last decade. He also explained that the Federal Reserve was in the transition period for implementing the Stress Capital Buffer.

Mr. Quarles stated that in early February, the Federal Reserve had published the hypothetical scenarios for the stress tests. He stated that those scenarios included stresses in leveraged lending markets. With the onset of the COVID pandemic, he stated that the largest banking organizations voluntarily suspended all share repurchases. He stated that the Federal Reserve also adjusted the stress test process to apply additional sensitivity analyses, with three alternative downside scenarios: a V-shaped recession and recovery; a slower, U-shaped recession and recovery; and a W-shaped double-dip recession. He stated that the banking system remained well-capitalized even in the harshest scenario. He noted, however, that uncertainty remained regarding how COVID could evolve; as a result, he stated that all large banks would be required to reevaluate and resubmit their capital plans later in 2020. He also stated that share repurchases would be suspended through the third quarter of 2020 and that the banks would not be allowed to increase their dividends or pay dividends exceeding their recent income. He stated that the Federal Reserve would review these capital restrictions in the fourth quarter of 2020 and could modify them. He also noted that the Federal Reserve would assess the banks’ new capital plans
in the fourth quarter. With respect to whether stress capital buffers would be updated as part of firms’ resubmission of capital plans, he noted that the Federal Reserve’s capital framework emphasizes the value of not increasing capital requirements under stress and thus exacerbating a downturn, for example from a reduction of lending.

2. Secondary Mortgage Market Activities

The Chairperson then introduced the next agenda item, secondary mortgage market activities. He turned to Mark Calabria, Director of the FHFA.

Director Calabria stated that the Council’s review of mortgage market activities was a step toward the Council fulfilling its statutory mission and promoting market discipline. He stated that risks in the mortgage market have not fundamentally changed since 2008 and that he supported the Council’s review of risks and mitigants, including the FHFA’s proposed capital framework for Fannie Mae and Freddie Mac.

Howard Adler, Deputy Assistant Secretary for the Council at Treasury, then presented on plans for a working group of staff of Council member agencies to assess risks and mitigants related to the provision of secondary mortgage market liquidity by Fannie Mae and Freddie Mac. He explained that the working group’s efforts would be guided by the four framing questions for the Council’s activities-based approach, set forth in the Council’s interpretive guidance on nonbank financial company designations, which address how the potential risk could be triggered; how the adverse effects of the potential risk could be transmitted to financial markets or market participants; what impact the potential risk could have on the financial system; and whether the potential risk could harm the non-financial sector of the U.S. economy. Mr. Adler stated that the working group would consider risk mitigants including the FHFA’s proposed capital rule and stress tests. He noted that the working group would leverage the FHFA’s expertise in this area and provide an update to the Council at its next meeting.

Members of the Council then discussed the importance of this issue to U.S. financial stability.

3. COVID-19

The Chairperson then introduced the next agenda item, COVID-19. He noted efforts to pass additional legislation addressing the economic effects of COVID-19. Council members then provided updates regarding their agencies’ responses to the COVID-19 pandemic. Council members shared information about actions they were taking to monitor various sectors of the financial system. They also described information-sharing and collaboration among state and federal regulators. Among other things, Council members highlighted the positive effects of the emergency liquidity facilities established by the Federal Reserve. With respect to the banking system, Council members noted that bank earnings would be affected by the pandemic, but that deposits had increased and liquidity remained strong. Council members also noted that, although trading volumes and volatility were high, financial markets were resilient and continued to function. It was also noted that nonbank mortgage servicers had increased their liquidity. Council members also cited their focus on investor protection and consumer education.
4. Resolution Approving the Minutes of the Meeting Held on May 14, 2020

BE IT RESOLVED, by the Financial Stability Oversight Council (the “Council”), that the minutes attached hereto of the meeting held on May 14, 2020 of the Council are hereby approved.

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 1:25 P.M.